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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 001471

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TREASURY FOR DAN MOGER AND STEPHANIE AHERN, NEA/IPA FOR
ANDREW LENTZ

E.O. 12958: DECL: 07/07/2016
TAGS: [EAID](#) [EFIN](#) [PREL](#) [KPAL](#) [IS](#)
SUBJECT: NEW TAKE ON BUILDING ISRAELI-PALESTINIAN BANKING
TIES

REF: A. TEL AVIV 01237
[1](#)B. TEL AVIV 01273
[1](#)C. TEL AVIV 01306

Classified By: Economic Counselor David R. Burnett; reasons 1.4 b/d

[1](#)1. (SBU) Irit Roth, Director of Country Legal Counsel and Compliance Division Head for Citi Israel, described operational difficulties as the main impediment to increased business between Israeli and Palestinian private banks in a meeting with EconOff on 6 July. While echoing some of the AML/CFT concerns voiced by other Israelis (Refs A, B, C), Roth said that the lack of standardization was of greater concern. Examples of this include different reporting requirements by Israel and the PA for suspicious activity, and language barriers. She suggested the GOI and PA work together to harmonize reporting requirements, and that Palestinian banks operate more often in English, where possible.

[1](#)2. (C) Roth viewed Citi Israel and other international banks as more open-minded about doing business with the Palestinian banks than domestic Israeli banks, given the former's international scope. However, she noted that Citi Israel is still subject to the same regulations and public constraints as domestic banks here in Israel. Roth said that while she had "no doubt" about the AML/CFT regimes of the large Palestinian banks, she was concerned about the capabilities of the smaller banks not represented at the joint meeting (Ref A). She also expressed doubt about the ability of Palestinians to regulate in Gaza. In contrast to previous reporting (Ref A), Roth was under the impression that some of the Palestinian banks do utilize the Israeli designation list and mentioned the willingness of others to begin doing so. She said that the Israeli list was of limited utility since it currently only includes designated groups and not individuals, but noted that its use by Palestinian banks could be a straightforward confidence building measure. (NOTE: The GOI is currently first designating groups previously designated by the UN and the U.S., to be followed by UN/U.S.-designated individuals. END NOTE).

[1](#)3. (SBU) Roth said that Israeli private banks would not be the answer to the Palestinian surplus cash problem. She said that the Palestinians must develop a mechanism whereby private banks can deposit their surplus cash with the PMA, much in the same way that Israeli private banks deposit theirs with the Bank of Israel and earn interest. Roth highly doubted any Israeli private bank would accept Palestinian surplus cash, given the lack of utility and precedent. She did, however, see other opportunities for increased relationships between private Israeli and Palestinian banks, mentioning that any further collaboration would be driven by business decisions. To this end, she suggested Palestinian banks hosting a meeting to present

business opportunities for the Israeli private banks. This meeting could discuss, for example, financing of large building and infrastructure projects or providing financial services. She thought that Israeli banks would be interested in such projects due to the low risk because of international guarantees to the PA. Roth emphasized that bolstering relationships with Palestinian banks would be solely a business decision; she said basic cash and correspondent services were just not profitable.

¶4. (C) Comment: Roth's suggestions for approaches to bolster Israeli-Palestinian banking relationships provide an interesting--and less political--take on the subject than previous reporting. If private banking relationships are developed between Israeli and Palestinian banks on projects financially beneficial to the Israeli banks, perhaps some of the more basic (and less profitable) services the Palestinians banks require could follow. Given the emphasis on business decisions, encouraging cooperation on such ventures could provide a better segue into building banking ties than with merely cash deposit or basic correspondent services. We believe that encouraging the GOI to work with PA to tackle some of the standardization problems could both build confidence as well as resolve some of the operational difficulties Roth mentioned. We will continue to encourage Israeli entities to work directly with their Palestinian counterparts and seek differing viewpoints on how best to move forward in building bilateral banking relationships.

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